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Not a Diamond, it is Only Graphite

It's been two months since I have written about promoted penny stocks. Let's start with how the penny stocks I have written about have done.

Ticker
Date of Article
Price @ Article
Price @ 11/30/12
Decline
Annualized
Splits

GTXO

5/27/2008

2.45

0.018

-99.3%

-66.3%

BONZ

10/22/2009

0.35

0.029

-91.7%

-55.2%

BONU

10/22/2009

0.89

0.087

-90.2%

-52.7%

UTOG

3/30/2011

1.55

0.020

-98.7%

-92.6%

OBJED

4/29/2011

116.00

1.500

-98.7%

-93.5%

1:40

LSTG

10/5/2011

1.12

0.036

-96.8%

-94.9%

AERN

10/5/2011

0.0770

0.0003

-99.6%

-99.2%

IRYS

3/15/2012

0.261

0.090

-65.5%

-77.6%

NVMN

3/22/2012

1.47

0.210

-85.7%

-94.0%

STVF

3/28/2012

3.24

0.390

-88.0%

-95.6%

CRCL

5/1/2012

2.22

0.430

-80.6%

-94.0%

ORYN

5/30/2012

0.93

0.205

-78.0%

-95.0%

BRFH

5/30/2012

1.16

0.459

-60.4%

-84.1%

LUXR

6/12/2012

1.59

0.041

-97.4%

-99.96%

IMSC

7/9/2012

1.5

1.200

-20.0%

-43.2%

DIDG

7/18/2012

0.65

0.270

-58.5%

-90.7%

GRPH

11/30/2012

0.8715

0.8715

0.0%

Now

11/30/2012

Median

-89.1%

-93.0%

And now a little bit of news:

1) Obscene Jeans Corp. [OBJED] did a 1-for-40 reverse split. Almost no one makes money on reverse splits. But it does allow the company to reboot, issue more cheap shares, and continue the scam.

2) I was contacted by a lawyer suing Luxeyard [LUXR]. Won't give most details, but it does not surprise me that the stock has dropped so much in so little time. The dilution from the stock offering did a lot of it, and losing money is the rest.

3) It is fascinating to me that promoted penny stocks tend to lose value at a 93% per year basis. That is very reliable. None of the penny stocks above have gains. They all lose. So, why should anyone invest in them? No one should.

I toss out the idea that there may be some good small-cap companies out there that deserve attention. Run stock screens, and analyze them yourself. Don't trust the pitches of others. If you must listen to those that pitch small cap stocks, at least stick with someone that has no agenda, like AAII. Go ahead, invest in their shadow stock portfolio. It has trounced the averages.

Graphite, not a Diamond

Okay, here is tonight's promoted stock: Graphite Corp. At first, I was kind of surprised by the pedestrian nature of this stock, but as I looked at it, I realized, "Okay, yeah, graphite pricing has gone up a lot since the Chinese started to ration their sales, since in the past, they were 80% of the supply."

But Graphite Corp. has no revenues, negative earnings, scanty book value, and has never mined an ounce of graphite in its existence. It's management team is not a top-flight bunch of miners. It is a development stage company that was once targeted to be a "third party reseller of medical office business solutions." (see page 5)

This is typical of penny stock promotions. The promoter spins a great tale, but there is little to nothing there. Graphite is produced in mines, but it is also produced synthetically. The high prices for certain types of graphite may create new technologies that allow synthetic graphite to be produced in larger, purer sheets. That's a speculation on my part, but large price moves, like that of high-quality graphite moving up 150%, invites not only new mines, but new technologies.

Okay, but let's look at the development of this company, and how its stock got issued:

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Graphite Corp.
(formerly First Resources Corp.)
(An Exploration Stage Company)
Statements of Stockholders' Equity (Deficit)

	Common Stock		Additional	Deficit Accumulated During the	Total	
	Shares	Amount	Paid-in Capital	Development Stage	Stockholders' Equity	Imputed Price
Balance at inception, August 3, 2007	-	$ -	$ -	$ -	$ -	
Common stock issued for cash per share	1,500,000	150	14,850	-	15,000	0.01
Net loss from inception on August 3, 2007 through December 31, 2007	-	-	-	-19,589	-19,589	
Balance, December 31, 2007	1,500,000	150	14,850	-19,589	-4,589	
Common stock issued for cash	1,000,000	100	39,900	-	40,000	0.04
Net loss for the year ended December 31, 2008	-	-	-	-34,552	-34,552	
Balance, December 31, 2008	2,500,000	250	54,750	-54,141	859	
Imputed interest			576		576	
Net loss for the year ended December 31, 2009	-	-	-	-19,409	-19,409	
Balance, December 31, 2009	2,500,000	250	55,326	-73,550	-17,974	
Shares issued to President for Cash	10,000,000	1,000	24,000	-	25,000	0.0025
Stock based compensation	-	-	875,000	-	875,000	
Stock issued for services	200,000	20	339,980	-	340,000	1.70
Imputed interest	-	-	1,450	-	1,450	
Net loss for the year ended December 31, 2010	-	-	-	-1,246,808	-1,246,808	
Balance, December 31, 2010	12,700,000	1,270	1,295,756	-1,320,358	-23,332	
Imputed interest	-	-	1,360	-	1,360	
Net loss for the year ended December 31, 2011	-	-	-	-45,410	-45,410	
Balance, December 31, 2011	12,700,000	1,270	1,297,116	-1,365,768	-67,382	
Common stock issued for cash	15,000,000	1,500	748,500	-	750,000	0.05
Shares granted for mineral options	1,000,000	100	199,900	-	200,000	0.20
Net loss for the nine months ended September 30, 2012	-	-	-	-227,396	-227,396	
						Book Value
Balance, September 30, 2012	28,700,000	$ 2,870	$ 2,245,516	$ -1,593,164	$ 655,222	0.0228

This is the statement of shareholder's equity from the recent 10-Q. I have added the last column to show you the prices where stock was issued. No insider ever received stock at prices higher than a nickel per share. Ask yourself, why can't you get stock at a nickel per share, so that you could sell it at 87 cents per share?

Also note the way the share count has ballooned -- they keep issuing shares, because they have little cash to pay parties with. Five years ago, 1.5 million shares. Today, nineteen-plus times that -- 28.7 million shares. And the company has done nothing aside from raising money, and unsuccessfully speculating. If we liquidated the company now, we would get 2.28 cents per share, not the 87 cents it has recently traded at.

The only way a company gets that kind of valuation is through promotion/advertising. And what were the incentives for those that put this in my mailbox today?

The writer had this incentive:
John Person Inc., dba National Futures.com did not receive any direct compensation (other than future subscription revenues, the amount of (which is not known at this time) with respect to the publication of this Advertisement. John Person Inc. has received $20,000 in cash compensation from Greenstone Media, LLC. to endorse this advertisement. This compensation constitutes a conflict of interest as to our ability to remain objective in our communication regarding the profiled company. Because of this conflict,

individuals are strongly encouraged to not use this newsletter as the basis for any investment decision .While all information is believed to be reliable, it is not guaranteed by us to be accurate. Individuals should assume that all information contained in our newsletter is not trustworthy unless verified by their own independent research. **Only invest in monies you can afford to lose.**
To their credit, the bolding is theirs. What incentive did the advertiser have?
Third Party Advertiser/Advertising Agency IMPORTANT NOTICE AND DISCLAIMER: Greenstone Media, LLC., the third party advertiser, has paid $1,179,405 to Diamond Spot Media, LLC (DSM) as of October 24, 2012 for this advertising effort in an effort to build investor awareness. DSM shall retain any amounts over and above the cost of creating and distributing this advertisement which advertises The Bottom-line Newsletter coverage of Graphite Corp. Advertising services include; production, outsourced advertising copywriting services, mailing and other related distribution services and advertising media placement costs. Greenstone Media LLC, the third party advertiser, is a company based in Charlestown, Nevis. Greenstone Media LLC. the third party advertiser, has represented to DSM in writing that it does not own any shares of Graphite Corp. except for restricted stock which Greenstone Media, LLC. has represented to DSM in writing that it will not sell, pledge or hypothecate or otherwise agree to dispose of for 90 days following the initial dissemination of this advertisement. Greenstone Media LLC., has also represented to DSM in writing that neither it nor its affiliates will buy or sell any shares of Graphite Corp. during the period that this advertisement is being disseminated by DSM or third party media vendors.
That's a weak disclaimer. "Affiliates" may not mean owners or clients. My sense is that large owners of Graphite Corp will use this opportunity to sell stock, feeding losses to a gullible public, and they could be the ones that funded the stock advertisement. Makes a lot of sense, after all, who would benefit most from the advertisement?

As I often say, "Don't buy what someone wants to sell you. Buy what you have researched and you know has value." With promoted stocks, they are selling financial poison. Avoid it like the plague, unless you get a kick out of losing 93%/year to scammers.